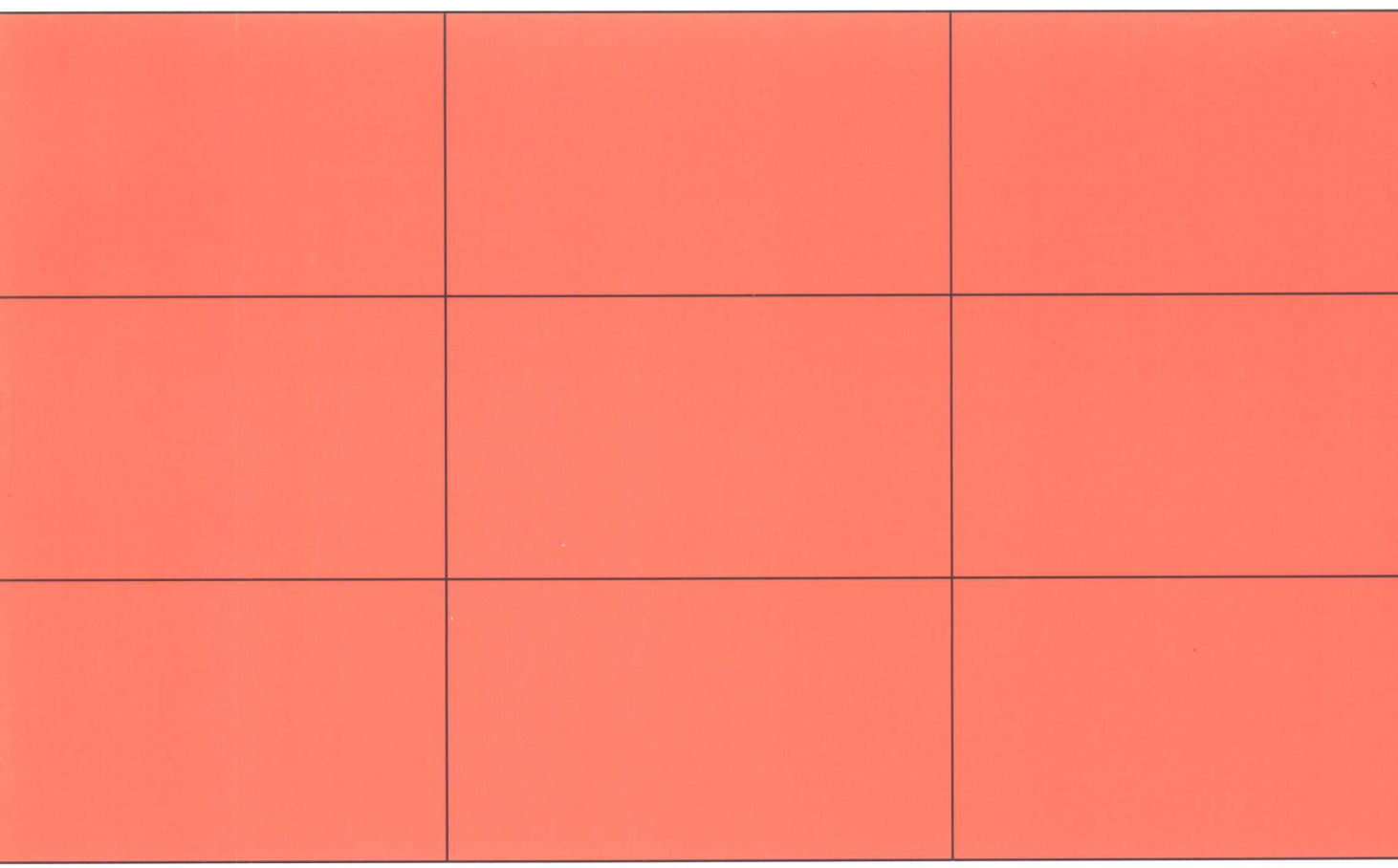
The Thai Textile and Clothing Industry and Government's Policy



Final Paper

The Thai Textile and Clothing Industry and Government's Policy

ASP-5 Sub-Programme on
Liberalization of Trade and Investment

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THE THAI TEXTILE AND CLOTHING INDUSTRY

AND GOVERNMENT'S POLICY

The Thai textile and clothing industry contributes about 26 per cent to the total manufacturing value-added. With around 1.2 million workers, it has the highest employment share in manufacturing and is the largest foreign exchange earner of any export commodity. Textiles and clothing have been the country's major foreign exchange earners since 1985, displacing the traditionally dominant export item, rice. In 1995 the export of textile and clothing reached $6.4 billion.

1 Historical Background

Although Thailand has a long history of textile production, the modern garment and textile industry was established relatively late compared with other East and Southeast Asian countries (Koomsup, 1973). Low import tariffs following the imposition of the Bowring treaty in 1830 forced Thailand to open its market to the colonial powers and thereby inhibited the industry's early development.

The country's first textile machines included 3,232 spindles and 72 looms, all imported from Germany by the Ministry of Defence in 1936 for military purposes (Koomsup, 1973). It was not until 1946 that modern privately-owned textile mills began to operate; with a total capacity of 3,600 spindles. The first privately-owned modern mill were, in fact, established by a local entrepreneur in response to textile shortages during the Second World War.

After 1946, the industry expanded rapidly, particularly in mechanised spinning, with the number of spindles increasing to 43,000 in 1952. Production collapsed, however, in the late 1950s due to competition from low cost imported cotton textiles from Pakistan. The price of imported cotton yarn was 25-30 percent below that of domestically-produced yarn. Santikarn (1977) suggests the Pakistan's export subsidies were one reason for these low import prices. As a result, several Thai spinning mills went bankrupt and had to be closed down. The Thai government

reacted by giving protection to the industry for the first time, imposing the Import Restriction Act on cotton yarn imports in 1955. The Act was amended to include cotton fabrics in 1957.

Import tariff and the introduction of the Investment Promotion Act in 1960 encouraged investment. The textile mills closed during the 1950s, including the textile mills owned by the military, were taken over and expanded by local entrepreneurs, and by Chinese entrepreneurs from Shanghai and Hong Kong. A few years later, joint ventures with Japanese firms became important in man-made fibres.

2. Structure of the Thai Textile Industry

Most Thai textile firms are located in or around Bangkok. There are many firms in garment and weaving, the labour intensive end of the industry, and fewer firms in spinning and man-made fibres, which are more capital intensive. Both ends of the spectrum are engaged in exporting. There are at least 2,000 garment firms, ranging from those with less than 10 sewing machines to those with more than 1,000. Even this is almost certainly an underestimate as small firms with less than 30 sewing machines are not required to be registered. Around half of the capacity in the garment industry is owned by large concerns. The garment industry is characterised by low capital and simple technology. In some areas, there are no appreciable entry costs as the minimum efficient scale of production is low.

Both government policy and technology of production dictate the structure of the industry. The garment industry has many firms and a high level of competition. The labour intensive nature of the industry, and to a lesser extent government policy, are responsible for the industry's structure. Simple technology and low efficiency leave large firms with no advantage over small firms. In contrast to textile industry the garment industry has not suffered from capacity control.

Small garment firms are heavily engaged in sub-contracting. These firms undertake the more highly skilled components of orders and the sub-contractors, mostly household firms, undertake the less skilled work. In producing shirts, for example, the small firms buy fabric and do the patterning and cutting. The sub-

contractors usually do the simple sewing on the bodies of shirts. Finishing, involving more difficult jobs such as putting on the collar, putting the sleeves in, labelling and other fine work, is again done by small firms. Larger firms, in contrast, process all the stages in the same factory.

The textile industry has fewer firms than the garment component of the industry as it requires more capital and higher technology. In 1994, there were 729 weaving firms. The number of knitting firms was around 692 (Table 1). In Thailand, some 250 small firms with old semi-automatic and automatic looms produce for the highly protected domestic market and for the 'border' markets of Burma, Laos, Kampuchea, Malaysia and Vietnam. Large weaving firms with modern machines, ranging from modern automatic to air-jet looms, produce both for export and for the domestic market. There is a broad spectrum of weaving technology in Thailand, but it is concentrated in the labour intensive end of available technologies. At the more capital intensive end of the industry in Thailand. Spinning had 141 firms with 3 million spindles altogether in 1994 or about 27,000 spindles per firm.

In the case of textile industry the government policy towards the industry has encompassed a mix of protection, promotion and restriction . In 1970 the government gave the industry protection as high as 100 per cent aiming at sheltering the industry from subsidized imported product from Pakistan. However, in 1971 the government tried to regulate the industry by prohibiting capacity expansion and the establishment of new textile firms. The objective was to avoid excess capacity of production. Capacity expansion was resumed two years later, in 1975, due to a rapid expansion of textiles export. In 1978, there was once again the re-introduction of regulations limiting textiles capacity except for those granted export promotion privileges prior to March 10, 1978. The prohibition on textiles investment was continued until 1987 when the regulation was abandoned.

The regulations were not, however, implemented effectively. The number of spindles, looms and knitting machines continued to increase by approximately 10 percent per year (see Table 2). Textile machines were imported and installed without being registered with the Ministry of Industry. Realizing that it was unable to control

Table 1
Number of Firms in the Textile Industry 1990-1994

Year	Man-made Fibres	Spinning	Weaving	Garments
1990	9	96	1,038	1,796
1991	11	115	1,202	2,029
1992	13	126	1,255	2,211
1993	16	131	1,356	2,530
1994	16	141	1,421	2,787

Source : Textile Intelligence Unit, Ministry of Industry.

Table 2
Number of Textile Machines 1975-1994

Year	Number of (unit : 1,000)		
	Spindles	Looms	Knitting Machines
1975	1,094	53	17
1980	1,320	67	30
1985	1,963	79	41
1986	1,954	80	44
1987	2,068	94	50
1988	2,581	103	69
1989	2,740	107	80
1990	2,889	116	91
1991	3,363	124	107
1992	3,595	130	111
1993	3,678	134	114
1994	3,825	135	115

p = Preliminary
Source : Thai Textile Manufacturing Association and
Textile Intelligence Unit, Ministry of Industry.

capacity effectively, the government from time to time gave amnesties to firms that registered belatedly, for example in 1981 and 1987.

The policy was carried out continuously until the end of 1986, when the dramatic increase in textile exports resulted in a shortage of yarn. The regulation was abolished in 1987 resulting in establishment of a large number of new firms. The number of weaving firms doubled between 1987 and 1994. The number of looms increased from 80,000 to 135,000 during the same period, while the number of spindles increased from 1.9 million to 3.8 million (Table 2).

Since the barrier to entry has been removed, modern textile machines for both spinning and weaving have been imported and installed. About 43,113 units of shuttle looms machines and 11,196 units of shuttleless machines were imported between 1987 and 1990. Many large textile companies have either replaced, or are in the process of replacing, their old machines with the latest models (Table 3).

In the most capital intensive end of the industry, man-made fibre production, there are only 16 firms. Most are joint ventures with foreign companies, for example, from Japan and Taiwan. Since 1990 domestic production of man-made fibre has increased rapidly from around 224 tons in 1990 to 542 thousand tons in 1994 (Table 4).

3. Textile and Garment Production

Textile and garment production has grown steadily with the expansion of both domestic and export demand. Garment production increased from around 490 million pieces in 1975 to more than two million pieces in 1994 (Table 5). Textile production also grew steadily, while fabric production increased from around 1.1 billion square yards in 1975 to 6.9 billion square yards in 1994. Yarn production grew more rapidly, from 13,500 tons to 820,000 tons during the same period. There was also a sharp increase in man-made fibre production, rising from a negligible level in the early 1970 s to 542,000 tons in 1994.

Table 3
Weaving Machines Imported, 1990-1994

Year	Types			
	Shuttle		Shuttless	
	Quantity (Unit)	Value (Million U.S. $)	Quantity (Unit)	Value (Million U.S. $)
1988	9,886	19.7	1,987	27
1989	5,551	12.8	2,094	30
1990	5,282	22	2,978	80
1991	4,732	21	2,988	59
1992	14,050	13	2,891	59
1993	3,388	28	1,614	47
1994	2,943	16	703	20

Source : Textile Intelligence Unit, Ministry of Industry

Table 4
Production of Man-made Fibers 1990-1994

Unit : 1,000 tons

	1990	1991	1992	1993	1994
Total Production	244	314	373	446	542
Polyester Staple Fiber	108	147	158	180	195
Polyester Filament Yarn	31	29	44	66	85
Polyester Pre-oriented Yarn	14	46	55	78	99
Nylon Filament Yarn	23	15	33	25	39
Nylon Pre-oriented Yarn	4	7	6	18	48
Acrylic Staple Fiber	14	14	17	18	17
Rayon Staple Fiber	50	55	60	60	60

Source : Textile Intelligence Unit, Ministry of Industry

Table 5
Thailand's Clothing and Textile Production, 1975-1994

Year	Clothing (million pieces)	Fabrics (million square yards)	Yarns (1,000 tons)	Man-made Fibre (1,000 tons)
1975	488	1,128	135	39
1980	722	1,821	227	113
1985	946	2,494	292	127
1990	1,653	3,987	502	244
1991	2,005	5,746	649	314
1992	2,142	6,312	754	373
1993	2,271	6,305	767	446
1994	2,328	6,932	820	542

Source : Thai Textile Manufacturing Associations and the Textile Intelligence Unit, Ministry of Industry

Thai textiles output is expected to continue to grow rapidly over the next few years. Capacity, including the number of spindles, looms and synthetic fibres, is also likely to expand, given rapid investment growth.

While Thailand exports textiles, it also imports raw material, including cotton and intermediate inputs such as man-made fibre, yarn and fabric. Import values have grown steadily since the 1960s and they have increased markedly since the mid 1980s as a result of the rapid expansion of exports. Domestic producers are notable short of indigenous raw material, especially cotton.

Some of the yarn and fabrics required for exports cannot be produced domestically. Relatively low quality is only part of the reason. Fashion changes in garments require a variety of inputs which no one country can produce.

The high growth of exports of garments since the mid 1980s, moreover, left Thai textile suppliers behind. This is particularly true in the case of fabrics where import volume has increased from 139 million square yards in 1985 to around 737 million square yards in 1993.

But in the case of other textile products such as imports of textile fibres and yarns nearly doubled during the period of 1985 to 1991 and started to decline as there has been an expansion of production capacity. Table 6 suggests that from 1985 to 1987 the import volume of man-made fibre, yarns and fabrics has increased markedly. Imports of man-made fibre increased from 22.6 thousand tons in 1985 to 82 thousand tons in 1991 and decline to a level of 67.2 thousand tons in 1994. Similarly, yarn imports in 1981 were 10 times the import volume of 1985, soaring from 8 thousand to 83.5 thousand tons in 1991 and declined to 46.9 thousand tons in 1994.

Government policy also contributed to the inability of Thai intermediate products to keep up with export growth. From 1978 to 1987, it exacerbated the inevitable time lag between investment and production by prohibiting the expansion of existing, or the establishment of new textile plants.

Table 6
Import of Textiles 1985-1994

	Cotton (1,000 tons)	Man-made Fibre (1,000 tons)	Yarns (1,000 tons)	Fabrics (1,000 sq. yds.)
1985	132.5	22.6	7.7	139,289
1990	283.7	35.7	83.5	478,600
1991	345.5	82	46.1	543,000
1992	414.3	63.5	40.8	564,700
1993	275.6	49.4	41.3	737,400
1994	321.7	67.2	46.9	n.a.

Source : Customs Department

Imported garments and textile products always attract tariffs. Import duties on fabrics and garments, at around 60 percent, are among the highest (Table 7). Man-made fibre has the second highest tariff rate of 30 percent.

Import tariffs on garment and textiles have been reduced since the late 1970s. The government has reduced import tariffs on fabrics and garment from 80-100 percent in 1978 to 60 percent in 1985. Additional import surcharges imposed on man-made fibre were abolished in 1984. In 1994 there has been a country-wide structural change of import tariff protection and thus import tariff on man-made fibre has been reduced to 20 per cent and this tariff protection are 20 40 and 45 for yarns, fabrics and clothing, respectively (Table 7).

4 Textiles and clothing Exports

Thai clothing and textile industries have become increasingly export-oriented during the 1980s and 1990s. Exports as a percentage of the total value of production in these industries have increased markedly: from 40 per cent in 1987 to 44 per cent in 1994 for clothing and from 26 per cent in 1986 to 60 per cent in 1994 for fabrics. But in the case of yarns there has been a decline in export value as a proportion to total production from 22 per cent in 1986 to 16 per cent during the same period. However, although the importance of domestic consumption has declined, it still accounts for most of clothing and textile production.

The share of domestic consumption of clothing and textiles in total production declined from 65 per cent in 1986 to 57 per cent in 1994. The domestic market has two components: 'border trade' and actual domestic consumption. Border trade consists of exports to neighboring countries such as Burma, Kampuchea, Laos and Malaysia. Official data are not available, but it is estimated that around 20 per cent of domestic consumption, or 13 per cent of total production, is in the form of border trade. Domestic consumption and border trade use the same distribution channels, that is through the central market in Bangkok.

Table 7
Import Tariffs for Textile and Clothing

percent

	Year				
	1974	1978	1982	1992	1995
Man-made Fibre	20(30)a	20(30)	22(15)	30b	20
Yarns (Polyester-Cotton)	20	20	22	30	20
Cotton Yarns	25	25	27	30	20
Fabrics	60	80	66	60	40
Clothing	60	100	66	60	45

(...) = Import-surcharge as a percentage of CIF import price
a = Figure in 1975
b = Import-surcharge was abandoned.
Source : Textile Intelligence Unit, Ministry of Industry

Export values for clothing and textiles have increased consistently. Thailand was a net importer of clothing and textiles until 1972 but since then has become a net exporter. Clothing has been the major export item, accounting for 73 per cent of the total for clothing and textiles in 1994, followed by fabrics (13.7 per cent), yarn (8.3 per cent) and fibre (2.8 per cent). Despite some fluctuations, the export value of clothing and textiles has grown by around 20 per cent per year since the 1980s, from $0.5 billion in 1982 to $6 billion in 1994.

Exports destined for MFA-markets accounted for around half of total export value of textile in 1994. The EU and the United States are the major markets for Thai clothing and textiles, each accounting almost equally share of around 24 per cent of export value. The remaining MFA importers make up only 4 per cent of total exports to MFA markets. Middle-east countries, Singapore and Japan are the main importing countries in the markets outside the MFA, accounting for around 23 per cent of total export values.

4.1 Textile Exports

Although textiles have a small share in total clothing and textiles export, exports of textiles have grown steadily at 20 per cent per year since the 1980s (Table 8). In 1993 yarn exports were $303 million while fabrics were $727 million. Despite their low value, yarn exports have grown rapidly doubling its export value for the last decade. The bulk of yarn exports are concentrated in man-made fibres. Mixtures of man-made fibres and cotton, such as P/C (Polyester-Cotton) and P/R (Polyester-Rayon), account for 69.32 per cent of total exports, while pure cotton contributes only 0.65 per cent.

The share of yarn exports to MFA markets has increased slightly in recent years. Exports to MFA markets increased from 55 per cent of total yarn exports in 1987 to 61 per cent in 1994. This is largely a result of improvements in product quality. Previously exports consisted primarily of low quality products sold to neighboring countries. When the spinning industry became more competitive, exports moved towards MFA markets to capture rents until quotas were filled. The important

Table 8: Exports of Textiles and Garments of Thailand 1987-1994

Value: Billion US $

Year	Yarns		Fabrics		Garments		Total
	Volume (tons)	Value	Volume (M.sq.yds.)	Value	Volume (M.pcs.)	Value	Value
1987	82,741.0	0.2	n.a	0.4	461.8	1.5	2.1
1988	90,461.5	0.2	n.a	0.4	551.3	1.8	2.4
1989	81,818.7	0.2	n.a	0.5	680.0	2.3	3.0
1990	105,427.1	0.2	n.a	0.5	771.1	2.7	3.4
1991	114,060.2	0.3	n.a	0.6	971.7	3.5	4.4
1992	107,639.0	0.3	n.a	0.7	893.0	3.6	4.6
1993	131,929.1	0.3	n.a	0.7	1,019.6	3.7	4.7
1994	193,182.4	0.5	n.a	0.8	1,025.0	4.1	5.4

Source : Custom Department

markets in 1995 are the European Union, the United States, Singapore, Hong Kong and Australia.

Fabrics comprise the second largest export item in clothing and textiles. Although they have a high export to production ratio, export growth has been lower than that of yarn, and has fluctuated as exports have in turn been highly dependent on the growth of clothing industries. Seventy-one per cent of exported fabrics are in the form of man-made fabrics and cotton-synthetic blends, while 29 per cent are pure cotton. Most of the latter are exported as grey cloth. Similar to yarns, most fabric exports (64 per cent in 1994) are destined to non-MFA markets. The European Union, the United States, Singapore, Hong Kong, Japan and the United Arab Emirates are the main markets.

4.2 Clothing Exports

The value of clothing exports grew at slower rates than textiles at around 12 per cent per year between 1987 and 1994 while volumes grew at 25 per cent per year (Table 8). Total exports increased from $1.5 billion in 1987 to $ 4.1 billion in 1995 with export volume increasing from 462 million pieces to 1,025 million pieces during the same period.

The EU and the United States are the main importing countries with a combined share of 48 per cent of Thai exports by value. In non-MFA markets the value share was around 52 per cent.

In contrast to yarns, clothing exports have diversified away from MFA-markets. Export values and volumes to MFA-markets have declined sharply, from 82 per cent in both value and volume in 1977, to 48 per cent in 1993 (Table 9). Export values and volumes to non-MFA markets grew rapidly in recent years with Saudi Arabia, United Arab Emirates, Panama, Singapore and Japan being the main importing countries.

Table 9: Export Shares of Textiles and Garments to MFA Markets(%)

Year	Yarns		Fabrics		Garments	
	MFA	NON-MFA	MFA	NON-MFA	MFA	NON-MFA
1980	56	7	55	21	63	13
1985	35	27	46.7	23.9	64	11
1990	58	19	35	22	47	13
1994	33.9	16.3	30.2	17.6	38.4	15.9

Source : Ministry of Commerce

Market diversification has been induced by the protective effects of the MFA. When export quotas are filled, new countries become competitive in labour intensive industries because existing exporters are restrained. But export growth has been limited since the Asian NICs have been losing their competitiveness, as their labour costs have risen and their real exchange rates appreciated.

4.3 Textile and garment Exports and the MFA

Thailand has been a member of the MFA since its inception in 1975. In early years the MFA did not have negative effects on Thai exports. Indeed, it provided export markets for Thailand by curtailing the exports of the three major exporting countries - Hong Kong, the Republic of Korea, and Taiwan. Like other MFA members, bilateral agreements have been negotiated between Thailand and individual importing countries, including the United States, Norway, Sweden, Finland and Canada, and groups of countries, notably the EU.

The utilization of the Thai export quotas has been high. The quotas to the two principal markets, the EU and the United States, were 90-100 per cent in some categories. In others, flexible provisions led to utilization rates in excess of 100 per cent (Suphachalasai 1992).

Thailand started to fill its MFA quotas in the 1980s so that instead of gaining from the MFA provisions it began to lose. This was especially the case with the United States, which has placed embargoes on Thai clothing exports since 8 October 1985 because 1985 shipments exceeded the agreed export quotas of 22.4 million square yards equivalent (Suphachalasai, 1989). The amount by which exports exceeded quota limits has consequently been deducted from the agreed quota in a bilateral agreement. This has been around 5 million square yards equivalent a year, from 1985 to 1988.

4.4 The Export Quota Allocation System

The quota allocation system is important since voluntary export restraints (VERs) create rents. VERs can either dissipate rents or allow their efficient use. Thailand has a discriminatory system for export quota allocation which favours large

exporting firms. The Department of Foreign Trade is responsible for quota allocations. Two systems are used: one for yarns and fabrics and another for clothing. In each case the available quota is divided into two parts: the principal or basic quota, and a residual quota. The principal quota (usually 70 to 80 per cent of the export quota available) is distributed free of charge annually to exporting firms on the basis of past export performance.

The residual quota, that is, the quota left over after the principal quota, or about 20 per cent of total export quota available, is allocated on a monthly basis. Twenty per cent of the residual quota is reserved for trading companies which are mainly exporting for large firms. These quotas can be sought by any exporting firm, including new ones as well as those already holding principal quotas. Eighty per cent of the residual quota is allocated according to four main criteria: (1) utilization of domestically produced inputs; (2) price per unit; (3) domestic value-added in the exported products; and (4) duration of time between the order and delivery dates (Hamilton, 1986 and Thailand, 1986). If a new exporting company can obtain part of the residual quota in one year, it will be entitled to an export quota allocation from the principal quota the next year.

Although the criteria for obtaining the residual quota appear to represent an open system for newcomers, in practical terms it is difficult for new firms to obtain quotas. The first and the criteria are very difficult for small firms to meet. Large exporting firms are at an advantage because they usually have integrated spinning and weaving plants or even man-made fibre, spinning and weaving production systems. Their domestic input content is accordingly high. New exporting firms find it difficult to compete in terms of the third criterion because it is difficult for them to produce high value added products or high quality products.

The allocated quotas cannot, legally, be bought, sold or transferred to other firms. In addition, exporters are penalized if they fail to export less than 90 per cent of their own quota. In the case of the principal quota the exporting firms that obtain the quota have to surrender any unfilled quota to the Department of Foreign Trade (for reallocation) three months before the end of the year; otherwise their quota for the

following year will be cut. In the case of an exporter obtaining a residual quota, the exporter has to fulfil at least 90 per cent of the quota otherwise the firm will be penalized by not being able to apply for the residual quotas for a further one to four months.

The quota allocation system allocates most of the rents arising from the MFA to large exporting firms. The export quota allocation system has, thus far, been efficient in the sense that available quotas have been highly utilized. Existing exporters, moreover, can monopolize the rents because of their historical performance. New exporting firms with less marketing experience have difficulty in obtaining a quota. This could affect the country's export growth and export diversification because the well established firms are not stimulated to expand their exports outside MFA markets while they enjoy rents from the quota restricted markets.

Consequently, small, medium and new firms concentrate on non-quota markets. They have their own export channels through small trading companies that are responsible for exporting as well as importing raw materials when necessary. If necessary they obtain tax rebates for production firms.

4.5 The GATT Uruguay Round and Textile Exports

The world trade for textiles and garments has become more liberalized after the GATT Uruguay round has been finalized. Textiles and clothing have been scheduled to be integrated into GATT once again with a transition period of 10 years. In other words the Multi-Fibre Arrangements that have governed approximately half of the world trade in textiles and clothing for two decades will finally be eliminated.

Although textiles and clothing products will be included into GATT, the liberalisation process for textiles and clothing is long and complicated. It takes 10 years (1994 to 2004) to complete the process which can be called transition period. The transition period is divided into three stages, by the end of the first stage of liberalization (3 years) 17 per cent of import product categories of 1990 has to be included into GATT, by the end of the second stage (4 years) an additional 18 per cent

of 1990 product categories has to be included and finally at the end of the year 2003 all textile and clothing products left over will be included in GATT.

There will be around half of textile and clothing product categories left to be included at the third stage of liberalization (3 years) which are expected to be the products that are subject to the MFA quota.

All the MFA restrictions will be carried over until that particular product categories has been included into GATT. During stage 1 annual quota growth should be no less than 16 per cent of the previous quota growth under the MFA agreement of 1994 (averaging around 6-7 per cent a year for Thailand) and in stage 2 the quota growth should be no less than the quota growth of stage 1 and at the final stage quota growth should be no less than 27 per cent of quota growth of stage 2. For example in the case where quota growth in a particular product category is 1 per cent, quota growth by the end of the transition period will be only 7.8 per cent which is slightly higher than the minimum level of quota growth according to the MFA agreement of 1974. This is particularly true in the case of sensitive categories where quota growth is usually lower than 1 per cent a year. It is mostlikely that the sensitive categories will remain out side the GATT until the end of the transition period.

The most important point is the safeguard measure allowing importing countries to impose import restrictions in case of an import surge or market disruption. If implemented the effect of this safeguard measure will be considerable. The measure can be considered as unilateral and discriminatory against exporting countries. The agreement in Article 2 paragraph 20 states that importing countries can impose import restrictions on any country and that such restrictions can be extended to cover the whole transition period (GATT 1994).

It can be conclude that little has been expected to change in the world trade of textiles and clothing during the transition period because the process of including textiles and clothing product categories into GATT is slow and the export growth of quota is not progressive enough to make a freer trade situation for textile and clothing in the world market prior to the transition period . Moreover, if the safeguard measure has been widely used, the world trade situation of textiles and clothing could possibly

worse than the case where there is the MFA. As exporting countries has no position to negotiate with the importing countries because the agreement allow the importing countries to impose quota restrictions unilaterally as long as import growth is provided and the quota base in no less than in 1990.

5. ASEAN Free Trade Areas and the Thai's Exports of Textiles and Clothing

Although export value of textiles and clothing to ASEAN market is small when compared with other markets, it has a high rates of export growth. During the period of 1992 and 1995 export values of textiles and clothing has in creased almost two folds from $225 million in 1992 to $419 million in 1995. Export share of textiles and clothing to ASEAN market as proportionate to other markets has increased from 4.4 per cent to 6.6 per cent during the same period (Table 10).

Among ASEAN member countries, Singapore has been the major export market of Thailand. For the last five years exports to Singapore market has increased from $150 million reaching the peak at $339 million in 1994. In fact, a significant increase of the Thai exports to ASEAN market is mainly from exporting to Singapore.

Malaysia is the second largest market of the Thai export of textiles and clothing in ASEAN. Export values has increased from around $29 million to $70 million in 1995. Exports to the Philippines has a similar direction which has increased from $32 million to $50 million in 1995. However trade with Indonesia has increased to a lesser extent than other ASEAN markets where the export value has increased from $11 million to $30 million during the same period.

Clothing is the major export product of Thailand to ASEAN market. It has taken in to account of around 80 per cent of total export values of textiles and clothing. Export values has increased from $86 million in 1991 to $178 million in 1995 (Table 11).

Again Singapore is the major export market in ASEAN that taken in to account of around 80 per cent of clothing exports for the last five years follow by Malaysia, the Philippines Brunei, and Indonesia. It is interesting to note that export of

Table 10 : Thailand's Textile and Clothing Export to ASEAN Countries 1992-1995

in million US dollars

ASEAN Country	1992	1993	1994	1995
Brunei	3.7	5.4	10.4	18.2
Indonesia	11.1	24.3	25.1	30.0
Malaysia	29.2	30.7	69.9	69.6
Philippines	32.1	28.7	40.6	49.8
Singapore	149.5	220.6	339.2	251.8
Total Export to ASEAN	225	310	485	419
Total Export to all Destinations	5,072	5,259	6,051	6,350
Export ASEAN as a share of Total Export	4.4	5.9	8.0	6.6

Source : Department of Business Economics, Ministry of Commerce.

Table 11 : Thailand's Clothing Export to ASEAN Countries 1992-1995

in million US dollars

ASEAN Country	1991	1992	1993	1994	1995
Brunei	5	2	4	7	14
Indonesia	0.1	0.1	0.3	0.2	0.4
Malaysia	8	8	10	39	14
Philippines	5	14	10	7	7
Singapore	79	62	95	234	143
Total Export to ASEAN	97	86	119	287	178
Total Export to all Destinations	3508	3,576	3,662	4,125	4,019
Export ASEAN as a share of Total Export	2.8	2.4	3.2	7.0	4.4

Source : Department of Business Economics, Ministry of Commerce.

clothing to Indonesia is small when compared with other ASEAN member countries as the export value has been less than $0.4 million dollars (Table 11).

In the case of fabrics, export share to the ASEAN market of Thailand is higher than clothing which take in to account of around 11 - 16 per cent of textile exports to all markets. Similar to the case of clothing the export value has been small where total export value was around $103 million in 1995 (Table 12). Singapore is the major export destination follow by the Philippines, Malaysia, Indonesia and Brunei.

Low value of trade among ASEAN member countries could be of three main reasons. Firstly tariff protection of some countries are high this is particularly true in the case of Thailand where the import tariff level is around 30 to 45 per cent. Secondly some ASEAN countries are competitors in producing and experting similar type of products such as Malaysia, Indonesia, the Philippines and Thailand. Thirdly exporters in ASEAN have been concentrated in exporting to the MFA market where they can acquire quota rents resulting import restrictions.

According to the field work interview, although the ASEAN market for the Thai exports is small, some small and medium size locally owed firms for both textiles and clothing are interested in expanding their export to the market. One of the reasons given are the slump in the world market, the MFA, market that makes them looking for diversifying their export market to the ASEAN market where it will become a free trade areas.

Exporting firms that are joint ventures with foreign countries have not shown much interest in the ASEAN market. This could be a result of the objective of the firm where they invest in the country for exporting to the quota market acquiring the quota rent.

Additionally the quota allocation system where historical performance is the criteria providing no incentive for large exporting firms to diversify their export to other markets. The system allocate rents to exporting firms with out any cost and thus they can get free rents. As a result exporting to markets like ASEAN will not be as profitable as exporting to the MFA markets.

Table 12 : Thailand's Textile Export to ASEAN Countries 1992-1995

in million US dollars

ASEAN Country	1992	1993	1994	1995
Brunei	1.7	1.4	3.4	4.2
Indonesia	11.0	24.0	24.9	29.6
Malaysia	21.2	20.7	30.9	55.6
Philippines	18.1	18.7	33.6	42.8
Singapore	87.5	125.6	105.2	108.8
Total Export to ASEAN	139	190	198	241
Total Export to all Destinations	1,496	1,597	1,926	2,331
Export ASEAN as a share of Total Export	9.3	11.9	10.3	10.3

Source : Department of Business Economics, Ministry of Commerce.

However there are some firms that specialized in producing a particular type of products such as women underwear and longerie are exporting to the ASEAN markets. This is because the firm has its own market niche within the region.

It is expected among the Thai firms that Indonesia will be competitive in producing textile exporting to ASEAN market. The Indonesian textile industry is considered the competitor. This is because of the larger capacity of textile production established in recent years and low wages providing the Indonesian industry with some advantages over the Thais. This is particularly true in the lower end of the products which will compete directly with the Thai small scale textile factories. However Malaysia and the Philippines are potentially export market for the Thai products but has to compete with Indonesia.

Similarly, Indonesia will be a major competitor for the Thai clothing once the ASEAN market is fully opened up. According to the field work interview, competition tends to be intense at the lower end product level rather the medium and high end. There is also a possibility that export market should to expand to other ASEAN markets such as Malaysia and Indonesia.

The source of competitiveness of the Indonesian clothing industry is the lower wages (Table 13). Additionally the lower level of tariff protection on inputs such as textiles and petrochemical products provide the country with advantages over Thailand. However Thailand still has its competitive edge in procucing higher end of the products as it is at the stage of moving up the market for both textile and garment expots.

6. Conclusion

It can be expected that after tariff reduction of textiles and clothing has come to effect as a result of AFTA, there would be an increase in intra ASEAN trade.

It is expected that both Thailand and Indonesia will be the major players for textiles and garments trade in ASEAN. Indonesia will have advantages over Thailand in producing textiles but some types of textiles Thailand will dominate. In the case of garment Thailand would be able to play an important as exports in the ASEAN

Table 13 : Textile Labour Cost Comparison in Selected Countries 1994

$ US. per hour

Country	Labour cost
Japan	25.62
Germany	20.37
Italy	15.65
France	15.35
USA.	11.89
United Kingdom	10.74
Hong Kong	4.40
South Korea	4.00
Turkey	2.31
Thailand	1.41
Philippine	0.95
India	0.58
China	0.48
Indonesia	0.46
Vietnam	0.39

Source : Werner International Inc.

market, although the country is no longer the country with the lowest wage in the region. Upgrading its product is the key for maintaing its exports.

Production adjustment among ASEAN countries would take place as some countries should become more specialised in producing some types of products according to their skills and resource endowment. Export expansions would take place on intermediate inputs and final products ranging from man-made fibre to clothing. Nature of textile and clothing products that have a high degree of production differentiation is the main reason.

As the GATT agreement on textiles and clothing abolishing the MFA in 2004, regional market is probably offering a good alternative for ASEAN producers. The world market will not only has stiff competition but also high tariff protection as the MFA importing market have imposed tariff protection at the rates of around 20 per cent.

Additionally after the MFA has been abolished, the Thai exporters that used to export to the MFA will diversify their markets in ASEAN as the economic rents arise from the MFA quota is no longer exist and this make ASEAN market more attractive than it used to be in the past. The same will apply to other ASEAN textile and garment exporting countries.

However the success of trade creation among ASEAN countries on textiles and garments depend on the succes of the implementation of the rules of origin. The rules of origin required for intra-ASEAN trade should not be too restrictive resulting in trade limitation within the area. But it should be able to preventing trade deflection otherwise trade creation objective within the region may not be able to achieve.

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